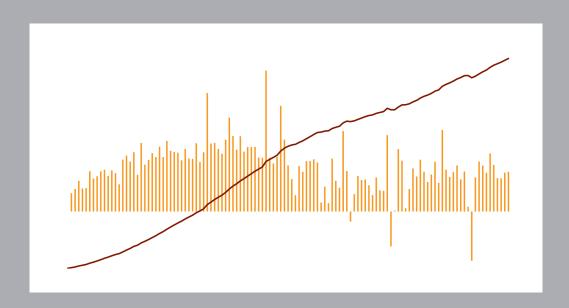
SYMBIOTICS MICROFINANCE INDEX (SMX)

10-year track record outperforming mainstream asset classes

January 2014



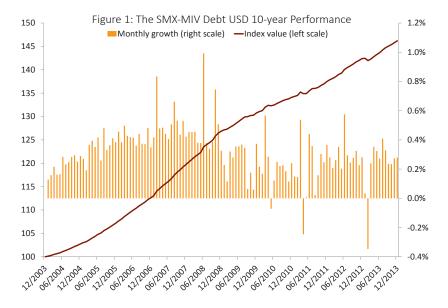


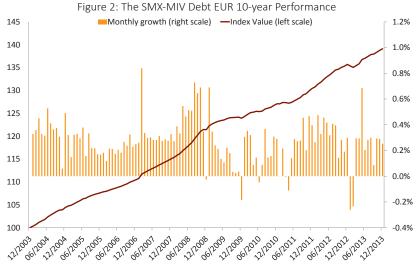
Paper written by: Roland Dominicé Marina Parashekevova Holmegaard Ramkumar Narayanan

Ten years as a reference benchmark for microfinance investments

The Symbiotics Microfinance Index (SMX) celebrated its tenth anniversary at the end of 2013. Over the past decade, this industry benchmark aggregating and tracking the main global fixed income funds which target microfinance institutions in developing countries, has served as a reference for microfinance fund managers to guide and compare their performance. Furthermore, the index has also been increasingly used by institutional investors wishing to position their microfinance investments within their global portfolio.

Over the years, the SMX has followed and included fund managers such as Absolute PM, BBVA, Blue Orchard, Credit Suisse, Dexia, LCF Rothschild, LLB, responsAbility, Symbiotics, Triodos and Wallberg. Constituent funds of the SMX all have the majority of their assets invested in microfinance debt instruments and offer shares to private investors with an open-ended duration, reasonable liquidity and at least monthly independent valuations. Overall, the SMX has served as a testimony and measurement of the financial profile of the asset class: stable and predictable absolute returns, with low volatility and low correlation to mainstream markets.





Returns per year	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
SMX-USD	2.75%	4.30%	5.09%	6.33%	5.95%	3.08%	2.55%	2.51%	3.58%	2.67%
SMX-EUR	4.40%	3.10%	2.63%	4.15%	5.55%	2.06%	2.55%	2.63%	4.05%	2.51%

Stable and predictable absolute returns with low volatility and low correlation to mainstream markets

Interestingly, an investor who would have invested USD 1 million in the underlying funds of the index in December 2003, would have reached an investment value of USD 1.46 million at the end of 2013. This represents a monthly average value of 0.32% or 3.87% on an annualized basis¹, most strikingly with 0.61% volatility over the 10-year period. Probably what is most compelling about SMX's overall results is the fact that over 120 monthly periods, the index has had only three negative months, with an average decrease of -0.22%.

Microfinance debt funds have often been positioned as alternatives to money market "plus" strategies, somewhere slightly below global bonds' return profile but with much lower volatility. For instance, the index has a strong correlation to the Libor USD 3 month, with a 0.55 factor over the decade. But the SMX has outperformed the Libor USD 3 month by almost twofold and has a much more interesting Sharpe ratio², of 1.39 for the SMX against -1.67 for the Libor USD 3 month. In comparison, the JPMorgan Global Bond Index slightly outperformed the SMX over the 10-year period, with 52.4% growth against 46.2%, but with a much higher volatility of 2.97%, resulting in a much lower Sharpe ratio of 0.43.

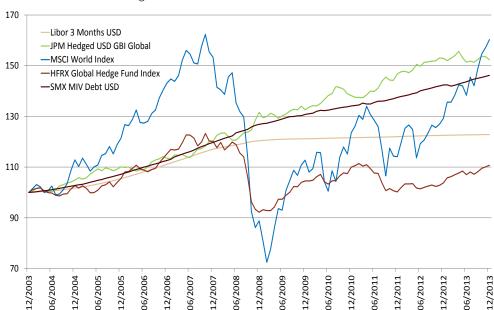


Figure 3: Microfinance vs. Other Asset Classes

Increasing return and reducing risk for asset allocation optimization

As a matter of fact, if microfinance debt instruments would have been added to a global balanced portfolio over the period, the result for its owner would have been an increase in return and a decrease in risk. By gradually adding 5%, 10% and 20% of microfinance debt instruments (SMX) in a portfolio composed of money market instruments (25% of Libor 3 month USD), bonds (25% of JPM Hedged USD GBI Global), stocks (25% of MSCI World Index) and hedge funds (25% of HFRX Global Hedge Fund Index), this would result in an increase of the return profile by about 2%, 4% and 5% and a decrease of the portfolio's risk profile by 4%, 8% and 18% respectively. Notwithstanding the fact that the SMX returns are net of fund management fees, while other indexes are calculated on the basis of gross returns which do not include intermediation costs.

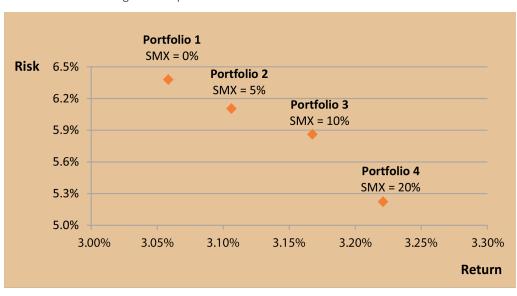
¹ Annual returns are calculated taking into account compound interest.

²The risk-free rate used to compute the Sharpe ratio is the 10-year US Treasury Note as of 31 December 2013 (3.03%).

Figure 4: Asset Class Comparison: Risk, Return & Correlation

2003-2013	Libor 3 Month USD	JPM Hedged USD GBI Global	MSCI World Index	HFRX Global Hedge Fund Index	SMX MIV Debt USD
Return Annual. volatility	Cash 2.08% 0.57%	Bonds 4.30% 2.97%	Stocks 4.83% 15.98%	Alternatives 1.02% 6.00%	Microfinance 3.87% 0.61%
Correlation Cash Bonds Stocks Alternative Microfinance Sharpe Ratio	1 0.07 -0.07 -0.02 0.55	0.07 1.00 -0.26 -0.33 0.03	-0.07 -0.26 1.00 0.79 -0.09	-0.02 -0.33 0.79 1.00 -0.15	0.55 0.03 -0.09 -0.15 1.00

Figure 5: Impact of Microfinance on Balanced Portfolio



2003-2013	Portfolio 1	Portfolio 2	Portfolio 3	Portfolio 4	
Share of SMX	0%	5%	10%	20%	
Return	3.06%	3.11%	3.17%	3.22%	
Volatility	6.38%	6.11%	5.86%	5.22%	

A rational double bottom-line investment

The microfinance industry has comparatively stood up well throughout the global financial crisis, and as such sustained its profile during one of the most intense stress tests financial markets have ever experienced. By positioning itself outside of listed markets and mainstream capital markets as well as by focusing on value chains that build access to goods and services of first necessity to low income households, microfinance investments have offered a viable alternative to investors in their asset allocation. Such products provide portfolio diversification and enable investors to access a broad and new market range along with value creation opportunities in high growth frontier economies.

Overall, as the SMX index reflects, microfinance investments have proven to contribute to global sustainable development. First, by pushing money where it normally doesn't flow, by allowing for excess savings in wealthier economies to be invested in capital deficient markets. Second, by focusing on the base of the pyramid and assisting poor families to access goods and services of first necessity (such as food, homes, jobs and energy). Third, by positioning itself within the sustainable finance framework, using multi-stakeholder value creation norms and ensuring long term viability of business propositions.



Legal Disclaimer: The research contained in this article is meant to broaden and deepen the understanding of the microfinance investments industry among investors and practitioners. It refers to the Symbiotics Microfinance Index and its underlying constituents; such references are made for research purposes only and are not intended as a solicitation or recommendation to buy or sell any specific investment instruments. Similarly, the information and opinions expressed in the text were obtained from sources believed to be reliable and in good faith, reflecting the view of the authors on the state of the industry, but no representation or warranty, expressed or implied, is made as to its accuracy or completeness. It is also meant for distribution only under such circumstances as may be permitted by applicable law.